

INTRODUCTORY SECTION  
Transmittal Letter

October 15, 2001

The Honorable Mayor and Aldermen  
City of Annapolis, Maryland

In compliance with Section 6.04.020 of the City of Annapolis Charter, I am pleased to submit to you the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2001.

The purpose of this report is to provide you and the taxpayers of the City of Annapolis with sufficient information to evaluate the City's financial performance during fiscal year 2001. Pertinent highlights of the report are provided to you in this letter.

The responsibility for the accuracy and fairness of the presentation, including all disclosures, rests with the City. I believe the data as presented is accurate in all material respects and is presented in a manner which fairly represents the financial position and results of operations for the various funds. The financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units.

**INTRODUCTORY INFORMATION**

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the independent auditors' report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

The City has independent jurisdiction over police services, fire suppression and emergency services, inspections and permits, streets and street lighting, storm drains, parks and recreation, planning and zoning, water production and distribution, sewage collection, off street parking and public transportation, and refuse collection. Education is provided by the Board of Education of Anne Arundel County. The City is authorized to issue debt, subject to certain indebtedness limitations, for the purpose of financing its capital projects.

This report includes all funds and account groups over which significant control is exercised by the Mayor and City Council, including services considered to be of a governmental nature and such proprietary funds as provided for by City Statute.

## **Economic Condition and Outlook**

Annapolis is situated on the western shore of the Chesapeake Bay, at the mouth of the Severn River, centrally located east of Washington, D.C. and south of the City of Baltimore. Due to this desirable location, as well as its historic charm, Annapolis has grown steadily during the past few years. Even though the City has little undeveloped land available, continued growth is expected through annexation and re-development.

Annapolis' tourism industry has evolved as the most important, dynamic component of the Annapolis area economy. As home to the U. S. Naval Academy, the Anne Arundel County seat, the State capital, a registered National Historic District, and 17 miles of waterfront, Annapolis attracts an estimated five million visitors a year. While the tourism industry provides a valuable economic benefit, the City must continually manage the growing demand for services, as well as provide a desirable place to live for its residents.

## **Major Initiatives**

For the next two years, the City's capital improvement and economic development focus will be on the inner West Street corridor. The new Westgate Circle will serve as the redevelopment anchor for the western end of the six block corridor. Park Place, a multi-use project situated on seven acres off the circle, has already won zoning approvals and a commitment from the City and the County for a Tax Increment Financing bond issue. The City has purchased the necessary land for a new parking facility in this corridor and is working with citizen committees on the design and placement. Preliminary drawings for the improved streetscape have been produced and the design is completed. The contract for the replacement of water and sewer lines as well as the under-grounding of the overhead utility lines are being awarded and phase I is well underway.

The private sector participation in redevelopment has been spurred by the City's commitment to revitalization. In addition to Park Place, construction is moving along on a new 120 room hotel and at least three other viable projects with Class A office space are being discussed for the West Street corridor. With the hospital scheduled to complete its move to expanded facilities outside the City in December, the City is currently working with the community and the new owner on the planned mixed-use redevelopment of the property.

Each year the City selects a department to highlight for its efforts and accomplishments. This year the focus is on the Department of Transportation. The Department of Transportation has evolved from a three vehicle system, in 1987, to an eighteen vehicle system that consists of four trolley-style buses, ten small transit buses and four minibuses. Additionally there are a number of support vehicles along with a modern administration and maintenance facility.

A five-year program to redesign the local transit system concluded in fiscal year 2001. These efforts have resulted in annual increases in transit ridership, along with increases in farebox revenue that reduce the need for general fund subsidies to the transit system. The State of Maryland has set a goal to double transit ridership statewide by the year 2020. Annapolis Transit achieved that goal in just five years. The ridership increased from 585,000 in FY1996 to over one million passengers in FY2001.

Other highlights include:

- S Returned Greyhound/Trailways bus service to the City after an eighteen year absence.
- S Integrated recreation services with bike racks on all buses and publication of a bike, hike and ride guide.
- S Installation of thirty new custom bus shelters. Under this new public/private partnership 100 shelters will be erected and maintained at no cost to the City, while also receiving \$40,000 in new revenues.

## **FINANCIAL INFORMATION**

### **Accounting System and Budgetary Control**

As set forth more fully in the "Notes to General Purpose Financial Statements," the accounting records for all Governmental Funds are maintained on a modified accrual basis, with the revenues being recorded when measurable and available, and expenditures, other than debt service, being recorded when the services or goods are received and the liabilities are incurred. Accounting records for Proprietary Funds and Fiduciary funds are maintained on the accrual basis. Under this method, all revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of the timing of related cash flows.

The City's accounting system has been developed to provide adequate internal controls which are designed to provide reasonable, but not absolute, assurance regarding:

1. The safeguarding of assets against loss from unauthorized use or disposition.
2. The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and that the evaluation of such costs and benefits requires estimates and judgments by management.

All evaluations of the internal controls are conducted within this framework. The Finance Office believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City utilizes a financial information and accounting system that expands accounting functions to include timely and flexible managerial reporting capabilities. In addition, the system allows the development of adequate internal controls as set forth above.

Budgetary control for all operating budgets is maintained at the fund level and for capital projects at the project level. Encumbrances are recorded for budgetary purposes at the time purchase orders are issued to the vendor and/or contractor. Purchase orders are not issued without prior certification by the Office of Finance that appropriations are available.

### **Fund Descriptions**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues and expenditures/expenses. The following funds and account groups are used by the City:

Governmental Funds are those through which most governmental functions of the City are financed. The measurement focus is upon determination of changes in financial position, rather than upon determination of net income. The following are the City's governmental funds:

*General Fund* - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Fund* - The Special Revenue Fund is used to account for Community Development Block Grants received from the Federal Government.

*Capital Projects Fund* - The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for all governmental fund types.

Proprietary Funds are used to account for ongoing organizations and activities which are similar to those found in the private sector. The following are the City's proprietary funds:

*Enterprise Funds* - The Enterprise Funds are used to account for those activities of the City which are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. The enterprise funds used by the City account for the operation and other activities of the City's water system, sanitary sewage collection and treatment system, off-street parking facilities, dock, Market House, transportation system, and refuse collection operation.

*Internal Service Fund* - The Internal Service Fund is used to account for the financing of the City's self-insurance program.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity. The City currently utilizes a Pension Trust Fund to account for pension assets. This fund is accounted for and reported as a proprietary fund since capital maintenance is critical.

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

*General Fixed Assets Account Group* - This account group was established to account for all fixed assets of the City of a stewardship nature (i.e., land, buildings, certain land improvements, furniture, fixtures, vehicles, and equipment), other than those accounted for in the enterprise funds. No depreciation is provided on general fixed assets.

*General Long-Term Debt Account Group* - This account group was established to account for all long-term debt of the City, except that accounted for in the enterprise funds.

## **Governmental Funds Financial Data**

### General Fund - Revenues and other financing sources

General fund revenues and other financing sources totaled \$34,995,038, an increase of 4.8% over fiscal year 2000. A summary for FY2001 is presented below.

General Fund Revenues and other financing sources	Revenue Amount	Percent of Total	Increase (Decrease) from FY 2000
Property Taxes	\$18,435,347	52.7	\$648,906
Licenses and Permits	1,757,509	5.0	450,239
Fines and Forfeitures	838,081	2.4	76,628
Money and Property	1,848,329	5.3	(399,394)
Intergovernmental	10,602,509	30.3	898,670
Current Services	1,513,263	4.3	(91,904)
	<u>\$34,995,038</u>	<u>100.0</u>	<u>\$1,583,145</u>

General property taxes represented 52.7% of total revenue in fiscal year 2001, compared to 53.2% for fiscal year 2000. Revenues from property taxes increased slightly due to the combination of an increase in assessments and because the City reduced its tax rate from \$1.68 to \$1.67 per \$100 of assessed value. The assessed value of real and personal property increased by \$40,919,506 to \$1,096,861,647 for fiscal year 2001. With Anne Arundel County raising its tax rate from \$1.35 to \$1.39 and the State of Maryland tax rate remaining steady at \$.21, the total property tax rate paid by a City property owner was increased to \$3.27 per \$100 of assessed value.

The increase in intergovernmental revenues from 29.1% of total revenues in fiscal year 2000 to 30.3% in fiscal year 2001 was due primarily to an increase in state shared taxes which include highway, admissions, income and hotel/motel. The largest area of growth was income tax, which was due to continued growth in the personal income of City residents and the recognition of capital gains taxes as a result of strong stock market performance.

#### General Fund - Expenditures and other financing uses

A summary of General Fund expenditures and other financing uses for FY2001 is presented below.

Function	Expenditure Amount	Percent of Total	Increase (Decrease) from FY 2000
General Government	\$4,463,765	13.7	\$436,523
Public Safety	18,077,363	55.5	921,880
Community Services	1,994,239	6.1	254,831
Public Works	3,498,921	10.8	330,199
Interfund Charges (Credits)	(147,607)	(0.4)	109,791
Debt Service	2,324,107	7.1	185,982
Operating Transfers Out	2,348,000	7.2	1,093,253
	<u>\$32,558,788</u>	<u>100.0</u>	<u>\$3,332,459</u>

General Fund expenditures and other financing uses increased \$3,332,459 from FY2000. Increases in salary and benefit costs were primarily responsible for increases in the operations functions listed above. The increase in operating transfers represents an increased commitment to PAY-GO funding for capital projects.

The fund balance of the general fund at June 30, 2001 was \$20,086,697 as compared to \$17,650,447 at June 30, 2000. \$585,828 is reserved for encumbrances and inventories. \$10,910,790 of the remaining unreserved fund balance of \$19,500,869 has been designated for subsequent years' capital project expenditures as approved in the fiscal year 2002 capital improvement plan. \$103,000 has been designated for contribution to the self-insurance fund if necessary. This leaves an undesignated fund balance of \$8,487,079.

#### Special Revenue Fund

Community Development Block Grant expenditures were \$422,742, including \$129,241 utilized for capital expenditures. Major program funding included \$124,492 for housing rehabilitation, and \$169,009 for local community organizational support.

### Capital Projects Fund

Expenditures for capital projects amounted to \$3,188,583 in fiscal year 2001. Spending included \$937,409 for general government expenditures, \$2,102,637 for road improvements, \$52,105 for public safety equipment, and \$96,432 for general community facilities. Revenues and other financing sources amounted to \$2,383,450, which included \$457,929 from state and county grants and \$1,925,521 from other operating sources.

## **Proprietary Funds Financial Data**

### Enterprise Funds - Results of Operations

The following table is a summary of the actual operating results to arrive at the net income of the enterprise funds in FY2001. When the amount for grant-funded asset depreciation, which totaled \$616,834, is added back, each enterprise fund, except the Transportation fund, had a net increase in retained earnings. The net increase to retained earnings was \$2,377,202 for a combined enterprise fund total of \$7,348,359 for the year ended June 30, 2001.

Enterprise Fund	Revenues	Expenses	Income (Loss) Before Operating Transfers	Net Operating Transfers In (Out)	Net Income (Loss)
Water	\$3,848,047	\$3,394,232	\$453,815	\$ -	\$453,815
Sewer	4,854,084	4,269,102	584,982	-	584,982
Off Street Parking	1,922,554	1,291,300	631,254	-	631,254
Dock	845,024	532,692	312,332	-	312,332
Market	117,936	68,037	49,899	-	49,899
Transportation	2,456,881	3,510,614	(1,053,733)	560,600	(493,133)
Refuse Collection	2,306,925	2,085,706	221,219	-	221,219
Total Enterprise	<u>\$16,351,451</u>	<u>15,151,683</u>	<u>1,199,768</u>	<u>560,600</u>	<u>\$1,760,368</u>

### Internal Service Fund

The City's Self-Insurance Fund had revenues of \$290,273, while net expenses were \$396,171. The resulting decrease of \$105,898 brought retained earnings at June 30, 2001 to \$1,213,109. The City had an independent actuarial analysis done of its Self-Insurance Fund by Tillinghast-Towers Perrin, who determined that current estimated liabilities require that the City designate \$103,000 of the General Fund equity balance for possible future contributions to the Self-Insurance Fund.

## **Fiduciary Funds Financial Data**

### Pension Trust Fund

The Pension Trust Fund ended the year with a fund balance for the Police and Fire Pension plan of \$124,986,504. The plan's actuarial assets continue to exceed its accrued liability at June 30, 2001.

## **Other Financial Data**

### **Debt Administration**

The outstanding debt presented in the General Long-Term Debt Account Group and Enterprise Funds at June 30, 2000 was \$14,713,791 and \$14,833,622, respectively. Funding of debt service for the account group is through annual appropriations in the General Fund. Water and Sewer Fund debt service is funded from dedicated revenues consisting of capital facility charges and assessments. Other enterprise fund debt service is funded through operating fees and charges. The City Charter provides that the aggregate amount of bonds and other indebtedness outstanding at any one time may not exceed 10% of the assessable tax base of the City.

### **Cash Management**

The City maintains separate cash accounts for each fund. Additionally, the City maintains an investment pool that is available to all funds except the Pension Trust Fund, which holds investments separate from other City funds. The City also separates investments of bond proceeds and operating funds.

Except for investments in the Pension Trust Fund, the City is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, repurchase agreements, certificates of deposit, and the State's local government investment pool. Contractually, the City's Pension Trust investment managers are restricted to investments in domestic common stock, public bonds, real estate and money market investment funds.

In accordance with State of Maryland statutes, all deposits and investments of the City must be fully collateralized, or otherwise insured.

### **Risk Management**

The City has a full-time risk manager to monitor all areas of liability, including workers' compensation. The manager, in conjunction with a risk management committee with members representing all City departments, recommends policy and implements various training programs to reduce the City's risk of loss.

## **OTHER INFORMATION**

### **Independent Audit**

As required by the City Charter, an annual independent audit has been performed for the fiscal year ended June 30, 2001. The unqualified report of the firm of Lindsey & Salita, LLC is included in the Financial Section of this report.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Annapolis for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. This was the twelfth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government has also received the GFOA's Award for Distinguished Budget Presentation for the annual appropriated budget for fiscal years 1996 through 2001. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

### **Acknowledgment**

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the effort and dedication of the staff of the Department of Finance. I would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a dedicated and responsible manner.

Sincerely,

M. Kathleen Sulick, CPA  
Finance Director



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Annapolis, Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



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